

**TOWARDS A REFORM OF THE INTERNAL ASPECTS OF
THE COMMON ORGANISATION OF THE MARKET IN BANANAS**

CONSULTATION DOCUMENT OF THE IMPACT ANALYSIS STEERING GROUP

Consultation open until 8 May 2006.

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1. CONTEXT

On 1 January 2006, with the change of the import regime, a reform of the banana Common Market Organisation¹ (CMO) was launched. Honouring the agreement concluded in 2001 with the United States and taking into account the results of arbitrations within the World Trade Organisation (WTO), the European Union substituted a tariff-only regime for the previous system of import quotas by region of origin. A 176 €/t customs duty now applies uniformly to banana imports, except for a volume of 0.77 million tonnes from the ACP countries, which can enter the EU duty free.

In February 2005, following the CMO's extension to ten new Member States and prior to the change of the import regime, the Commission published a report on the operation of the CMO². This launched a wide-ranging debate on the future of the CMO, in a context shaped by the prospect of a conclusion of the Doha Round negotiations, the implementation of a new generation of partnership agreements with the ACP countries, the end of the exemption for bananas from the Everything But Arms agreement, and the renewal of the Union's policy towards its outermost regions and the POSEI programmes specifically dedicated to supporting their agriculture.

¹ Instituted by Regulation (EEC) n° 404/1993 of 13 February 1993, OJ L 47, 25.2.1993.

² Report to the European Parliament and to the Council concerning the operation of the banana CMO, COM (2005) 50 of 17 February 2005.

Drawing the first conclusions from this debate - which in the meantime had profited from an independent evaluation by COGEA³ - the Commission in October 2005 decided to propose a reform of the internal aspects of the Banana CMO in 2006 and, in particular, of those aspects governing the granting of aid to European producers⁴.

In accordance with the commitment made to better regulation⁵, the preparation of the reform will depend on an analysis of the economic, social and environmental aspects of the problems involved in its operation. The impact, the advantages and the disadvantages of alternative reform options will have to be examined.

To help bring together the range of expertise necessary for a multi-dimensional analysis and to facilitate the preparation of the reform, this work was entrusted to an inter-departmental steering group (ISG) made up of representatives of all the concerned departments of the Commission. In this way it was hoped to create a synergy between the interventions of the Common Agricultural Policy and other policies of the Union with an influence on the development of banana sector and market, or themselves influenced by the operation of the banana CMO. The work of the ISG started in October 2005 and its report has to be submitted in June 2006.

2. OBJECTIVES OF THE REFORM

Up till now, following a series of hearings with interested parties, experts and stakeholders, the ISG has focused on:

- the importance of the banana sector to maintaining agricultural activity and, more broadly, the economic and social balance of the main producing regions and even, in a certain limited number of cases, for preserving the aesthetic value of their landscapes;
- the importance of the level of aid granted to European banana producers, relative to the market value of their product, the fact that aid is insufficiently geared towards improving the economic and environmental sustainability of banana production, and may even have the effect of making alternative activities appear less attractive;
- the peculiarity of the method used for fixing aid to banana producers, in view of the financial discipline imposed, since CAP reform, on producers in other agricultural sectors receiving aid payments;
- the peculiarity of the conditions for granting aid, in view of multilateral agreements entered into to reduce the trade-distorting effect of subsidies;
- the inequality of support between producers in different regions;
- the problems linked to the management and control of the aid.

³ Evaluation of the common organisation of the market in bananas, carried out by COGEA in 2005, http://europa.eu.int/comm/agriculture/eval/reports/bananas/index_fr.htm

⁴ 2006 work program of the Commission, COM (2005) 531 final of 25 October 2005.

⁵ Communication on impact analysis, COM (2002) 276 of 5 June 2002, and Impact Analysis Guidelines, SEC (2005) 791 of 15 June 2005.

The progressive liberalisation of the European banana market can only exacerbate some of these problems and tensions.

On this basis and in the context of today's main political priorities – Sustainable Development and the Lisbon Strategy, as well as the reformed Common Agricultural Policy – and the constraints linked to our international commitments and the financial perspectives of the Union, the options for the reform explored by the ISG seek to achieve the following objectives:

- to stabilise expenditure related to the banana CMO;
- to make the aid granted to European banana producers more compatible with the disciplines imposed by the WTO;
- to maintain the economic activity and social equilibrium of the outermost producing regions;
- to direct the resources of the CMO towards the sustainable development of the banana sector and, in cases where this is not possible, towards the diversification of agricultural production;
- to simplify the rules of the CMO without compromising the control of expenditure.

3. SCOPE OF THE IMPACT ANALYSIS

The ISG will analyse four options for the reform of the internal aspects of the CMO:

- "**Status Quo**": the compulsory "no policy change" scenario. This takes into account changes in the overall context and, in particular, the changed market access conditions. It also envisages the revision of certain methods and fixed amounts used for the calculation of aid.
- "**Decoupling**": aligns the banana CMO to the provisions of the reformed Common Agricultural Policy and recommends the integration of the banana aid scheme into the decoupled single farm payment regime.
- "**Memorandum**": closely matches the proposal presented by the principal producing countries. It envisages fixed envelopes, determined by country, to finance aid for producers, based on historical references and conditional on maintaining some production. This will replace the current system of compensatory payments adjusted to price trends
- "**POSEI**": supposes the transfer of financial resources from the CMO to the POSEI programmes for the agricultural sectors of the outermost regions. Modalities for granting aid to producers are decentralised, in order to meet the priorities and the specific character of each producing region. For the European regions, it envisages the integration of aid into the single farm payment regime.

These options and the corresponding instruments from the internal part of the CMO are presented in Section 5, together with the initial views of the ISG on their advantages and disadvantages.

Using a series of hypotheses as to the evolution of market access conditions, the ISG will attempt to assess the impact of these options, by 2007, 2009 and 2013.

As far as possible, for each option, the assessment will be based on quantified estimates of the production level of the main European producing regions, of consumption levels, of imports by region of origin, of prices, of the budget devoted to aid for producers, of producer income, employment, customs duty revenue, of producer and consumer surpluses and global welfare.

As a reference, total liberalisation of the market and the abolition of the CMO will also be simulated.

Independent from the analysis of the options, the ISG has also decided to study a series of topics with a view to enriching the Commission's proposal for reforming the CMO. These topics include:

- The potential for and means to encourage synergy between European and ACP producers in the same geographical region (the Caribbean) or located on routes towards the European continent (the Canaries);
- The influence of the structure of marketing chains on sources of supply and on competition on the European market;
- How to reduce the environmental impact of banana production;
- The role of the banana sector in the outermost regions and how to encourage alternative activities;
- The prospects for "organic" and "fair trade" bananas and how to encourage them.

4. AIMS OF THE CONSULTATION

In the opinion of the ISG, the options described and the topics for the impact analysis correspond to the concerns and views of the interested parties on the future of the sector and related challenges. This at least in as far as they have arisen from positions stated, from analyses consulted and from the hearings that have been conducted. Their study should clarify the consequences and impact of the various possibilities and contribute to enriching the decision-makers' information base.

The ISG would now like to have the views of interested parties on the relevance of the options and the topics analysed, relative to the objectives of the reform.

- Are the options analysed coherent with the objectives of the reform?
- What difficulties would the options analysed be likely to encounter if they were implemented?
- What would be the most significant impact of the options analysed?
- Are there factors not taken into account or elements of uncertainty which could influence significantly the impact of the options analysed? If so, what are they? What would be their influence?

- Should the ISG seek to incorporate into its analysis an assessment of any specific impacts, other than those envisaged (section 3)?
- What is your assessment of the advantages and the disadvantages of the options analysed, presented in this document?
- Which actors would be particularly affected by the implementation of these options and how?
- Who would benefit most if these options were implemented and why?

The ISG is aware that the options and topics it has chosen to explore take account of a limited series of factors and that, without modification, they cannot prefigure the full range of political choices that could be offered to the Commission. That is why the ISG is seeking contributions from interested parties, who can enrich these options, and help assess their feasibility and possible impact.

The ISG wishes to incorporate into its analysis proposals by interested parties that - in compliance with the international commitments and capacities of the Union - would make it possible to improve the economic, social and environmental sustainability of banana production and marketing. Proposals may relate to the Common Agricultural Policy or to other EU policies and actions. Proposals and comments will be easier to take into account in the analysis if they contain verifiable factual elements. Please be sure to specify if any elements provided are to remain confidential.

5. OPTIONS ASSESSED

“STATUS QUO”

Under this option, producers would continue to benefit from an income aid coupled to the quantity of bananas marketed and equal to the difference between the average price obtained on the market and an average flat-rate income (640.30 €/t). Aid would remain limited to a maximum quantity of 867,500 t for all the producer regions, but there would be no budget ceiling.

Cross-compliance and financial discipline would apply, but the aid would remain excluded from the single payment scheme. Modulation would not apply, at least in the outermost regions where almost all Community bananas are produced (98.7%). The basic aid would remain the only mechanism encouraging producers to seek remunerative prices: its level being the same for all, producers succeeding in obtaining above-average prices would be favoured.

An aid supplement would continue to be granted to regions recording a price significantly lower than the average. , This has regularly been the case for the West Indies and, to a lesser extent, Madeira.

In the most competitive regions, Community output should be maintained at current levels. On the other hand, it would continue to weaken in regions producing bananas at prices below the Community average. The downward trend in the most fragile areas could be slowed by considerable financial contributions in the form of supplementary aid.

The calculation of the aid that compensates for the difference between the flat-rate reference income and the regional average income could also be regionalised. Under this hypothesis, Community expenditure would be limited because the most competitive producers would benefit from lower aid. That would however result in the elimination of any market-oriented mechanism from the system.

In a more liberalised and more competitive Community market, keeping the current aid scheme would imply a level of budget unpredictability hardly compatible with the current financial framework.

“MEMORANDUM”

This option corresponds to the proposals presented in the Memorandum signed by the four main producing countries, in September 2005.

Each producing country would have a fixed annual budgetary envelope, which could be used in a differentiated way according to the characteristics of its producing regions.

Spain and France would allocate 60% of their appropriations to an aid for their traditional banana-producing holdings. The aid would be fixed on a historical basis and would be subject to the maintenance of at least 70% of the reference production, except in the event of natural disasters. A complement per tonne would be granted to holdings facing more difficult production conditions (open-air production in the Canaries and mountain-area production in the West Indies). The remaining budget would be used, at the choice of the national authorities, for the installation of new farmers, for farm enlargement or to increase the historic aid of the holding.

In Portugal, the aid would remain coupled to the quantity of bananas produced, within the limits of the national budgetary envelope.

For Cyprus, the Memorandum envisages income support measures equivalent to those proposed for the other producing countries.

Greece, accounting for 0.3% of Community output, has not signed the Memorandum and has made no comments since its presentation in September 2005.

Cross-compliance and budget discipline would continue to apply to the proposed aid scheme, even if no indication in this regard is made by the Memorandum.

The required budget would be equal to that granted to the producer countries for the marketing year 2000, the year when aid reached its highest level under the current CMO, i.e. 302 million €. This amount would be distributed among the Member States according to the scale applicable in 2000.

The Memorandum envisages a "review clause" in the event of a price fall. This clause would make it possible to increase the national budgets by the funds necessary to reach the same income as for 2000. The ISG does not retain this clause in its Memorandum option.

The Memorandum represents common ground for almost all Community producers and the relevant national authorities. It shows the need for strategies differentiated by producing region. Its main shortcomings are the considerable budget envisaged and the

complexity of the aid system, that is designed and applied in a different way for each producing region, and whose management at Community level could hardly be justified.

The budget of 302 million € proposed in the Memorandum exceeds the average funds allocated annually to banana aid in the past and would imply budget cuts for other crops, in order to respect the financial perspective. Moreover, it corresponds to an average aid above 11,000 €/per hectare. The current aid level of approximately 8,800 €/ha is one of the highest in the CAP, as pointed out by the Court of Auditors and several Member States. It has to be asked whether the high production costs⁶, the importance of bananas for the socio-economic tissue of the outermost regions, and the progressive opening of the Community market vis-à-vis national protection in place prior to 1993 are enough to justify such a high amount.

“DECOUPLING”

This option would apply to banana producers the same approach as adopted in 2003 for the CAP reform. In the first year each producer would receive a number of rights to payment, on the basis of payments received under several previous sectoral aid schemes, calculated by hectare. Subject to the maintenance of a corresponding area in good agricultural condition and subject to compliance with environmental and public and animal health requirements, these rights could be activated each year, with no obligation to produce.

The amounts of compensatory aid would in theory be incorporated into the single payment scheme.

In Crete and in Cyprus, where the single payment scheme is already in place or will be set up as from 2009, the integration of compensatory aid into the single payment scheme would represent an administrative simplification and should not undermine the socio-economic balance of the producing regions, since banana cultivation in these areas is secondary or marginal in relation to other crops.

Using the "opt-out" provision granted by the Council at the time of the CAP reform, the Spanish, French and Portuguese governments excluded farmers in the Canaries, the West Indies and Madeira from the single payment scheme. Under these conditions, and considering the particularly high level of aid per hectare from which banana production benefits, the introduction of a single payment by holding for banana producers only could result in granting an abandonment premium.

In the case of decoupling, the possibility of excluding the outermost regions from the single payment scheme would not apply to the banana sector. However, the arguments in favour of excluding those regions from decoupling - namely, the maintenance of local agricultural chains to ensure socio-economic balance, safeguarding landscapes, the lack of alternative activities and the risk of abandonment - are even more true for bananas, which are a major activity for the outermost producing regions.

⁶ The average production costs of Community bananas could not be defined in a precise way in the absence of a regional accounting system in the RUP.

The implementation of decoupling would require these regions to set up an administrative system for the management and control of the single payment scheme, only applicable to bananas.

"POSEI"

The "Posei "option aims at the removal of the current system of support to the producers' income under the CMO and the transfer of an appropriate budget towards the POSEI programmes⁷, which include specific measures to ensure the continuity and the development of local agricultural production in the outermost regions, taking into account their specific handicaps.

Within the limit of the POSEI financial plans, the producing Member States could draw up specific measures to assist local banana producers in each region. They could of course implement a system of deficiency payments close to the current scheme or a system of direct payments as set out in their Memorandum.

The integration of bananas into regional programmes would strengthen the consistency of the strategy supporting the agriculture of the outermost regions. The flexibility concerning the determination of the types of aid, and decentralised management, would enhance the possibility of taking into account the characteristics of each producing region.

Budgetary stability would be ensured under the annual financing plans of the regional programmes.

The POSEI option is not applicable to the non-outermost-producing regions. For these regions, producing approximately 1% of the Community's bananas, the option of integration into the single payment scheme would be retained.

The transfer of a budget amount roughly corresponding to the current compensatory aid for bananas would significantly increase the financial envelope of the POSEI programmes, whose management, although monitored by a management committee, is sometimes perceived as not very transparent. Some fear the tensions that such an increase could create for the regional administrations in charge.

⁷ Council Regulation (CE) n° 247/2006.

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OPTIONS FOR AID FOR the COMMUNITY PRODUCERS

STATUS QUO	MEMORANDUM	DECOUPLING	POSEI
<ul style="list-style-type: none"> • Compensatory aid covering the difference between the Community average price and a flat-rate reference income + possible aid supplement for the regions having recorded a price significantly lower than the average • Quantities eligible for aid remained capped to 867,500 t. • No budget ceiling 	<ul style="list-style-type: none"> • Aid to the holding subject to the maintenance of at least 70% of reference production (except Portugal) + supplementary aid for open-air or mountain-area producers. Possibility of a reserve for new producers or new plantations • Portugal: production-coupled aid within the limits of the national envelope • Fixed budget envelopes by country <p>Budget “review clause” in case of price drop not retained.</p>	<ul style="list-style-type: none"> • Integration of the amounts corresponding to banana compensatory aid in the single payment scheme set up by Regulation (EC)1782/03 <p>N.B.: the outermost regions are excluded from the single payment scheme</p>	<ul style="list-style-type: none"> • Outermost regions: Integration of bananas into the POSEI programmes for the Canaries, the West Indies and Madeira • European regions: Decoupling (idem III) option

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OTHER HYPOTHESES

Import regulations	Aid for the organisations from (OP) producers	Standards	Structural measures
<ul style="list-style-type: none"> • Unlimited access to the third country bananas with payment of a €t customs duty 176 • Access to zero duty for ACP bananas within the framework of a quota of 775,000 tonnes • Development of the tariff and of the ACP preference related to DDA and EPA 	<ul style="list-style-type: none"> • Temporary and degressive aid for the start of the organisations of producers made up before on 31.12.2006. • Aid under the rural development programmes (aid for the start of new POs for the new Member States and aid for the activities of promotion). • Possibility of other aid for the POs within the POSEI (to the choice of the Member State) 	<ul style="list-style-type: none"> • Marketing: possible integration into the fruit and vegetables standards. • Environment: the conditionality applies. Standards specific to the banana could be added • Social conditions The extension of the conditionality to the upholding of the social standards is being studied. • Certification private: No envisaged normative framework 	<p>Actions cofinanced under the programmes from rural development aiming to:</p> <ul style="list-style-type: none"> • Improve quality and marketing • Improve the use of the resources in compliance with the environment • Increase competitiveness